



**Sun Life Assurance Company of Canada (U.K.) Limited (“SLOC UK”)**

**The Directors’ Report to Plan-holders**

**SLOC With-Profits Fund in 2023**

## Introduction

The interests of with-profits plan-holders invested in the SLOC With-Profits Fund (the “Fund”) are protected by the Principles and Practices of Financial Management (“PPFM”) for the Fund. The Board of SLOC UK can make choices, or use discretion in a number of areas, like setting bonuses, policy payouts and surrender values. The Board will also address any competing or conflicting rights of plan-holders.

This report is from the Board of SLOC UK and in it we explain how SLOC UK has used its discretion in these areas and confirm that we have met the terms of the PPFM during 2023 for the Fund. We suggest this report is read alongside the PPFM.

Our PPFM is on our website [www.sloc.co.uk](http://www.sloc.co.uk) or you can ask us for a copy by calling us on 0345 072 0223 (or 01256 841414 from a mobile phone).

We have taken advice from our With-Profits Actuary and there is a separate With-Profits Actuary’s statement at the end of this report.

## Summary

We considered the advice and reports of the With-Profits Committee and the With-Profits Actuary, and are satisfied that, for the financial year 2023:

- We managed the Fund in line with the PPFM.
- We made key decisions and used management discretion in a way that was consistent with the PPFM.
- We have taken into account all plan-holders and their rights, interests and expectations properly, as described in the PPFM.
- We have treated plan-holders fairly and, where there are competing or conflicting interests and expectations of different groups of plan-holders, we have complied with the PPFM.

## Investment management

### Information for endowment and whole of life plan-holders

The investment strategy of the Fund in respect of the life business, is to provide the highest potential investment return whilst preserving the financial condition of the Fund and paying any guarantees promised to plan-holders when these are due. To do this, the Fund invests mainly in a diverse range of longer-term assets. These include government and other high-quality bonds, which are loans to the UK and foreign governments and companies that are raising money. These assets are referred to as fixed interest investments because we know the income that we expect to receive from them, although their market value will change over time.

We also invest some of the Fund in company shares and property. Owning shares means that the Fund is a part-owner of these companies and so receives a portion of their profits. Property investments usually receive income in the form of rent. Both of these types of asset have the potential to provide investment growth but also carry a higher risk of their value going up or down. We have increased the target for the portion of the Fund for endowment and whole of life plan-holders which is invested in company shares and property from 40% to 45% during 2023. This was due to the continued strength of the Fund and to increase future potential investment returns. We allocated the additional 5% to international company shares,

and additionally moved 2.5% of the total target holdings from UK company shares to international company shares to increase diversity to global markets. We set a range around the target of 45%, aiming to keep the portion invested in company shares and property within 40% and 50%.

The table below shows how much we invested in different types of assets for endowment and whole of life plans.

**Table 1**

<b>Asset class</b>	<b>End 2022</b>	<b>End 2023</b>
Fixed interest and other assets *	57.4%	54.7%
UK company shares	18.7%	16.1%
International company shares	11.8%	17.0%
Property	9.9%	9.5%
Cash	2.1%	2.7%

\* Other assets include plan loans, where policyholders have borrowed against the early exit value of their plan.

We review these amounts regularly to make sure we continue to meet our aims.

The Fund's net return in 2023 was +5.2% (after tax and investment expenses).

Returns by asset class over 2023, before tax and expenses, are shown below and compared to market performance. Other than property, all other Fund asset classes increased in value. For some asset classes, there was underperformance relative to benchmark over 2023. The With-Profits Actuary and With-Profits Committee continue to monitor the investment strategy for the Fund regularly.

**Table 2**

<b>Asset class</b>	<b>Fund</b>	<b>Market</b>
Fixed interest	6.8%	5.5%
UK company shares	5.7%	8.1%
International company shares	8.8%	17.5%
Property	-6.6%	-1.0%
Cash	4.8%	4.6%

#### Information for pension plan-holders

The investment strategy of the Fund in respect of pensions business is to provide a stable investment return through investment in fixed interest investments. It is necessary to take account of the financial condition of the Fund and the minimum guaranteed interest rates applicable to each type of plan during the period before retirement, and also the cash flow requirements of the plans. During 2023, we made no material changes to the investment strategy for the Fund's pensions business. It continues to provide a stable return through investment in fixed interest assets and cash. We continue to invest in derivatives that give the Fund a fixed rate of interest; this protects the Fund from reductions in interest rates. We also invest in fixed interest bonds held in Euros. This helps to protect the Fund's Irish Pension plans from fluctuations caused by changes in currency exchange rates.

Most pension plan-holders have benefits fixed at guaranteed levels, so are not currently affected by the investment strategy.

## **Management of payouts – whole of life and endowment plans**

A key part of management discretion is to decide the annual and final bonuses paid to plan-holders.

**Smoothing** – In determining bonus rates, we use a process known as ‘smoothing’, which provides a cushion against the short-term ups and downs of investment markets. We do this by reinvesting some of the profits from ‘up’ years to smooth out any losses in the ‘down’ years. Our intention is, in normal circumstances, to limit the year-on-year change in the amounts paid to similar policies to no more than 10%. Smoothing, however, cannot protect against the impact of persistently low investment returns.

**Distributing the Fund’s excess assets** – Since 2016, we have distributed all of the Fund’s excess assets to plan-holders by enhancing the benefits for all whole of life and endowment plans. It is possible, in sufficiently adverse circumstances, that we could reverse these enhancements.

**Calculating payouts** – Bonus rates depend on both the past and expected future performance of the assets.

We increased final bonus rates from 1 April 2023 primarily to reflect rising expectations of future investment returns. The increase to payouts was limited to 10%, in line with our smoothing practices.

**Early exit values** – We review early exit values to make sure they meet the PPFM objectives. For whole of life and endowment plans, we use the prospective value of benefits in determining fair early exit values, with no additional smoothing applied beyond any used in calculating the value of benefits on death or endowment maturity.

We made changes to early exit values from April 2023, to provide fair values for those policyholders choosing to leave. Most values were reduced because of lower market values of assets in the Fund.

The With-Profits Actuary gave advice to the With-Profits Committee about the impact of the recommended bonus scales and basis for early exit values.

## **Management of payouts – pension plans**

Interest rates for Individual Money Purchase plans were changed in 2023. Annual interest rates on premiums paid before 1 April 2018 remained at 4.25%. However, the annual interest rates on premiums paid on or after 1 April 2018 were increased to 3% for business written in the UK (denominated in GBP) and remained at 1% for business written in Ireland (Euros). This reflected higher returns from bonds denominated in GBP.

We use two different interest rates for Personal Pension Plans. A lower annual interest rate (currently 0%) applies to contributions paid in the first 12 months\* and a higher annual rate (1.25%) to all other contributions. We did not change either rate in 2023.

(\*If the contribution level then increases, this lower interest rate also applies to the increased portion of the contribution for the first 12 months after the increase.)

The annual interest rate for other plans also stayed the same (Individual Transfer Plans at 6% and Deposit Administration at 4%) where these rates are set to honour the minimum guaranteed interest rates.

## **Management of expenses**

In line with the PPFM, and with the advice of the With-Profits Actuary, we continued to charge the Fund for its fair share of the company's ongoing costs. In 2023, we paid out 0.8% of the Fund in expenses before any tax relief.

## **Revisions to the PPFM over 2023**

The changes to the PPFM over 2023 were minor and made to improve clarity, not to change the substance of the PPFM. The changes were:

- In the introduction section, updates were made to reflect changes to SLOC UK's customer strategy to align with the FCA's Consumer Duty rules and guidance, and to reflect the acquisition of SLOC UK by the Phoenix Group.
- Updating the revised expiry date of the expense cap on overhead costs to end-2028 from end-2023.
- Removal of reference to the "current low interest rate environment".
- Clarification on the approach taken when setting early exit values.

## **Further information**

If you would like a copy of the PPFM referred to in this report, or the latest bonus notice which briefly explains how we manage the Fund, please visit our website [sloc.co.uk](https://sloc.co.uk) or call us on 0345 072 0223 (or 01256 841414 from a mobile phone).

## **With-Profits Actuary Report to policyholders in the SLOC With-Profits Fund for the period 1 January 2023 to 31 December 2023**

I advise Sun Life Assurance Company of Canada (U.K.) Limited (SLOC UK) when it exercises its discretion in managing the with-profits business in the SLOC With-Profits Fund, for example when deciding on bonus rates. With-Profits Actuaries provide public reports like this one annually to with-profits policyholders.

From my day-to-day involvement in the management of the fund and the information and explanations provided to me more generally by management, I am content that SLOC UK has fairly exercised its discretion in managing the SLOC With-Profits Fund. It is my opinion that the report and the discretion exercised by SLOC UK during 2023 took with-profits policyholders' interests into account in a reasonable and proportionate manner.

In making this statement I have taken account of relevant rules issued by the Financial Conduct Authority and followed applicable professional guidance and standards.

Brian Murray  
Fellow of the Institute and Faculty of Actuaries  
With-Profits Actuary  
June 2024

Sun Life Assurance Company of Canada (U.K.) Limited, incorporated in England and Wales, registered number 959082, registered office at Matrix House, Basing View, Basingstoke, Hampshire, RG21 4DZ, trades under the name of Sun Life Financial of Canada and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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